Indiana Unemployment Insurance
2011 Annual Report

Mark W. Everson, Commissioner

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The Indiana Unemployment Insurance (“UI”) Board (“the Board”) is established by law and consists of nine (9) members appointed by the Governor. The Board consists of a cross-representation of the workforce. There are four (4) members representing the interests of organized labor; two (2) members representing the interests of small employers; two (2) members representing the interests of large employers; and one (1) member representing the state and the public-at-large. As of March 1, 2012, the Board consisted of the following:

President, Paula Presnoples- Public-At-Large
Vice-President, Kevin Tully - Labor
Member, Joseph A. Evans-Labor
Member, David Collins - Labor
Member, Randy Maxwell- Small Employer
Member, Kent Tolliver- Large Employer
Member, Vacant – Labor
Member, Vacant - Small Employer
Member, Vacant - Large Employer

One of the Board’s responsibilities under IC 22-4-18-2 is to present the Annual Report to the Governor highlighting the status of Indiana’s UI program, together with recommendations for maintaining the solvency of the UI trust fund. Additionally, this report discusses recent activity within the UI program and certain related statistical information.

EXECUTIVE SUMMARY

Unemployment Insurance (UI) programs were established in 1938 to cushion the impact of an economic downtown for unemployed workers and to help bring economic stability to businesses and communities. Premiums are collected from employers each quarter and held for the state in the UI trust fund by the US Treasury. Unemployment benefits to eligible claimants are paid from the trust fund for each week of eligibility.

Over the past decade, UI benefit expenditures exceeded premium revenues resulting in a sharp decline of the UI trust fund balance. The decline began well before the start of the recession in 2008 and was the result of legislative changes made to the UI system. By the fall of 2008, when Indiana began experiencing the effects of the recession, the trust fund was bankrupt and the State was forced to begin borrowing from the federal government to pay UI benefits.

In 2009, legislation was passed in an effort to restore solvency to the fund, however, implementation was delayed due to concerns over increasing employer premiums during a period of recession. Significant legislation was enacted in 2011 that set the course for the trust fund to be returned to solvency and balanced the solution between employer premiums and benefit expenditures. By the end of the year, Indiana's trust fund was on the path toward solvency.

Initial claims and state benefit payments returned to a more normal volume in 2011 as the state continued its economic recovery from the recession. 196,500 first payments were made to new claimants and 2.9 million weeks of benefits were compensated. Additionally, Federal Emergency Unemployment Compensation (EUC) and State Extended (EB) benefits decreased from 2010 levels over the year. Claimants were eligible for up to 73 weeks of EUC and EB in 2011, unchanged from 2010. These benefits were 100% reimbursed by the federal government.

Indiana's unemployment insurance trust fund closed the year with a negative $1.95 billion balance, virtually unchanged from 2010. Incoming revenues in 2011, including the Federal Unemployment Tax Act (FUTA) penalty revenue, were nearly equal to expenditures.

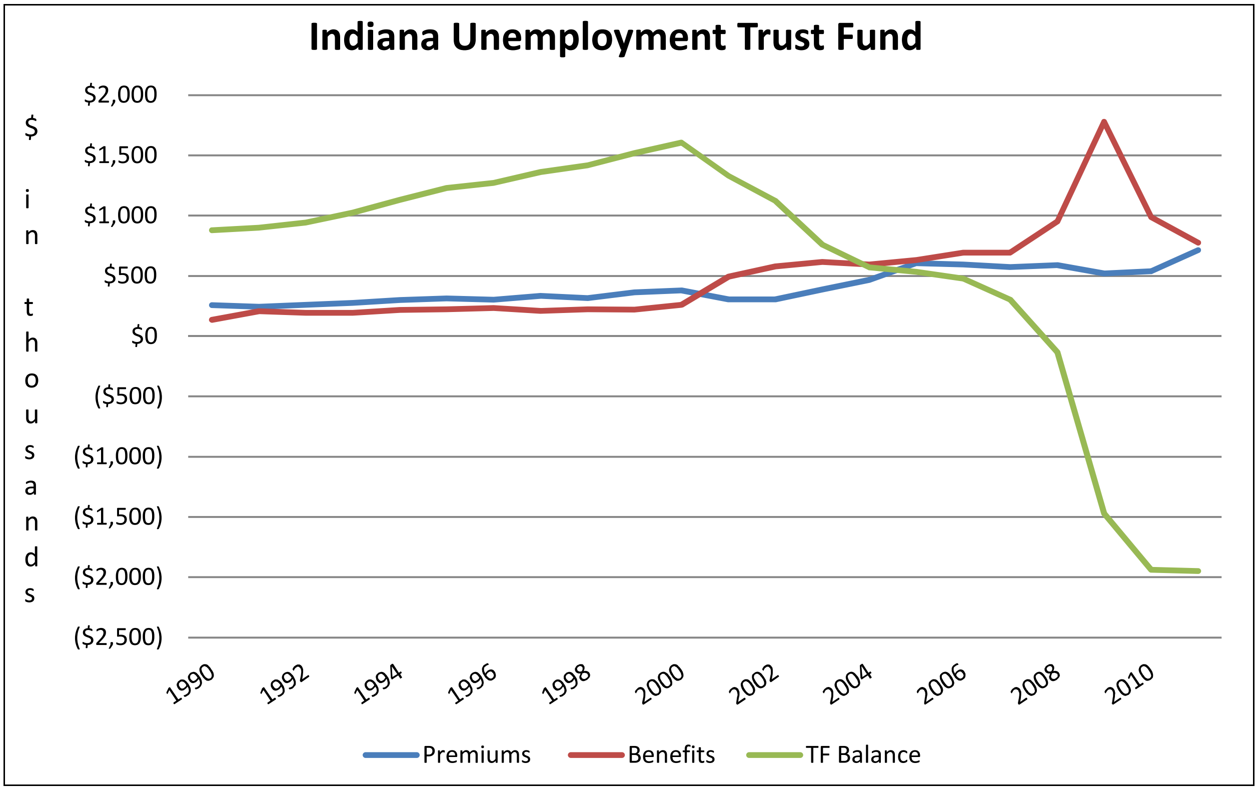
Unemployment insurance premium revenue increased by 35% year over year, mostly as a result of the implementation of the new UI legislation. The taxable wage base was increased and new tax schedules were implemented to require higher premiums from employers who had a higher historical use of the system.

As a result of the outstanding federal loan, Indiana employers experienced a 0.3% increase in their federal unemployment tax. This FUTA penalty was applied directly to the principal balance of the loan in 2011. In addition to the FUTA penalty, Indiana accrued interest charges in 2011 and issued the first interest payment to the federal government in September. This interest payment was funded by a 13% surcharge on employer premiums.

UI TRUST FUND OVERVIEW

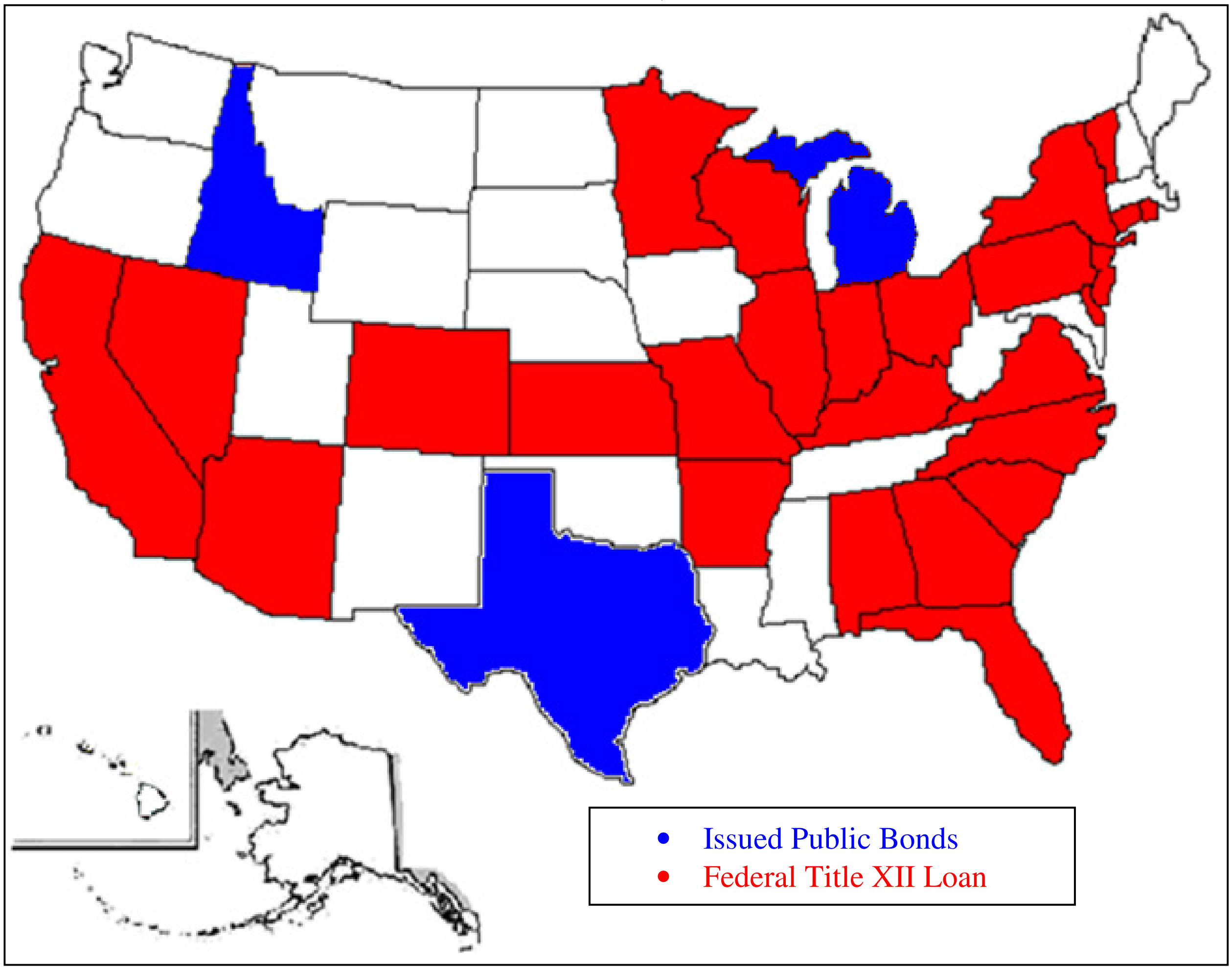
2011 was a significant year in the recent history of the trust fund as the gap between premium revenue and disbursements was reduced significantly from the trends of the past several years, mostly due to the passage of new legislation (House Enrolled Act 1450) and the improving economy.

From 1991 to 2000, revenues exceeded disbursements by an average of 42% per year, leading to a healthy trust fund balance of nearly $1.6 billion at the end of 2000. Beginning in 2001, after the enactment of legislative changes that increased benefits to claimants and reduced premiums for employers, benefit costs exceeded revenues by an average of 42% each year from 2001 to 2010.



In late 2008, the trust fund surplus was exhausted and Indiana began receiving advances from the federal government in order to continue paying UI benefits. The prior decade of increased benefit payments, added to the 300% increase in benefit claims due to the recession, created a deficit of nearly $2 billion by the end of 2010.

The National Map of Unemployment Insurance Trust Fund Indebtedness
December 31, 2011



At the end of 2011, Indiana was one of 29 states with outstanding loans necessary to continue paying State unemployment benefits. Total national trust fund debt was $39 Billion, with Indiana's debt totaling $1.95 Billion. The average state debt was $1.46 Billion. Three states, Idaho, Michigan and Texas chose to issue a combined $5.5 billion in public bonds rather than continuing to borrow from the Federal Government.

Based on 2011 actual results, in line with projections given to the General Assembly, Indiana's trust fund is currently projected to return to solvency by the year 2018. Premium revenue and benefit expenditures are projected to become realigned by 2014.

LEGISLATIVE CHANGES

The Department of Workforce Development worked closely with the General Assembly in early 2011, through House Enrolled Act 1450, to return the unemployment insurance trust fund to solvency. The following summary depicts changes that occurred to employers and unemployment insurance claimants in 2011 upon enactment of the new law.

Employers

The taxable wage base was increased to $9,500 from $7,000 and the premium rate schedule was reduced from Schedule B to Schedule E through the year 2020. In addition, Indiana accrued interest on the federal loan at 4.08% in 2011, which was funded by a 13% employer surcharge on employer premiums.

As a result of borrowing from the federal government for two consecutive years, the FUTA employer credit was reduced by 0.3%. This meant an additional $21 per employee FUTA payment for employers when filing their annual federal tax returns at the beginning of 2011. This credit reduction will continue to decrease by an additional 0.3% each year until the loan is paid in full or is capped as a result of trust fund revenues and expenditures realigning.

Claimants

Benefit Eligibility Guidelines (effective July 1, 2011):
Individuals are not eligible for benefits if they are;

- People who work on an on-call or as-needed basis (when they are offered work for the week)
- Individuals receiving vacation pay
- Workers employed at a business during a planned short-term shutdown
- Employees of head start programs who are on planned breaks such as summer vacation.

Severance Pay and Unemployment Benefits (effective July 1, 2011):
The amount received in severance pay is always deducted from unemployment insurance benefits.

Voluntary Buyouts and Unemployment Benefits (effective October 1, 2011):
Employees who accept a voluntary buyout to resign or retire are no longer eligible for unemployment insurance.

The benefit calculation section below was specifically delayed from becoming effective until July 2012, in order for Indiana to remain in conformity with the “non-reduction” rule contained in the federal Emergency Unemployment Compensation (EUC) law. This law prohibited any state that accepted EUC funds from reducing their weekly benefit amount calculation during a period of EUC. It was anticipated the EUC law would expire at the end of CY 2011, causing the effective date for the new benefit calculation described below to become effective as of July 1, 2012.

Benefit Calculation (effective July 1, 2012):
New claims filed on or after July 1, 2012 will be calculated based on a claimant's annual income instead of a high quarter of earnings. The claimant's annual income will be summed, divided by 52 weeks, and then multiplied by a 47% replacement rate to arrive at the weekly benefit amount. The maximum weekly benefit amount remained $390. This new calculation is referred to as annualization.

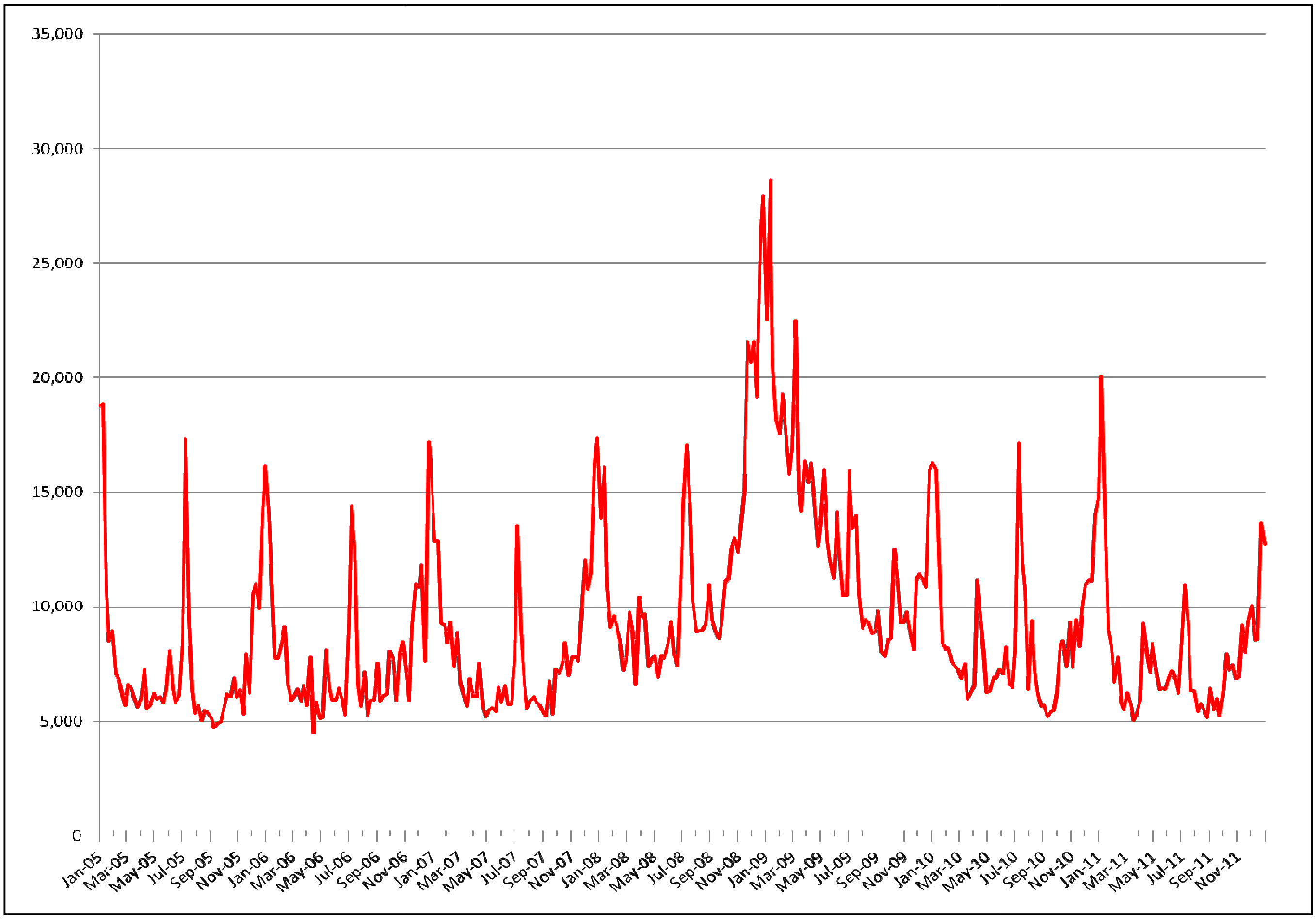
**Note: when Congress reauthorized EUC in early 2012, the new statutory language included in the federal law exempted Indiana from the requirement of the "non-reduction" rule.*

Unemployment Insurance Benefits

Initial Claims

Initial claims for State unemployment benefits returned to a more normal volume in 2011 as the state continued its economic recovery from the recent recession. Initial claims for the year were 416,000, which was in line with the pre-recession volume of 408,000 in 2007. In contrast, 2009 initial claims were 689,000 at the height of the economic downturn. The following chart depicts weekly initial claims from 2005 through 2011.

Indiana Initial Claims for UI Benefits

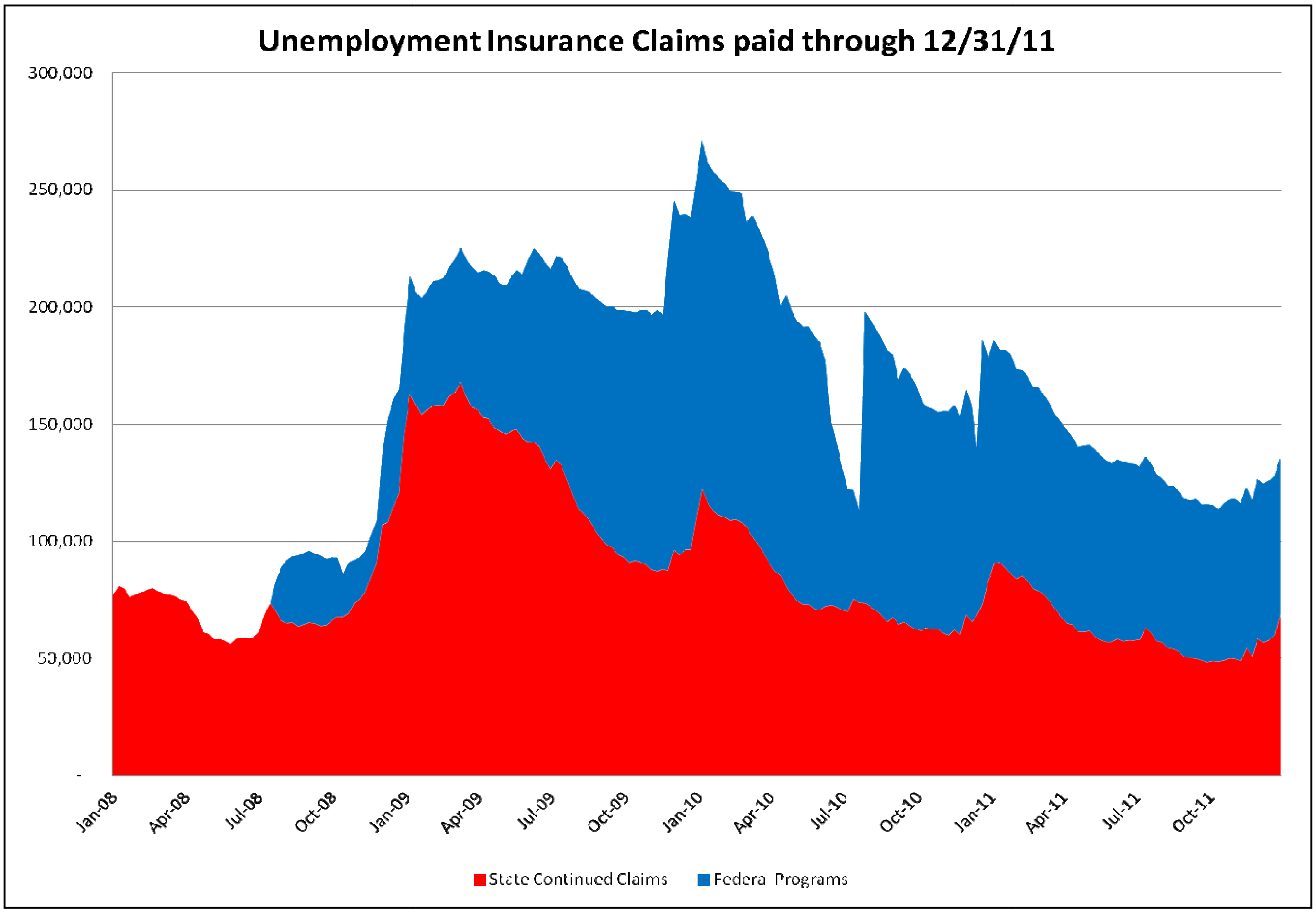


State Continued Claims

In 2011, state benefits payments decreased from 2010 by 21%. $843 million in regular state benefit payments were made, a decrease of $230 million year over year. 196, 500 first payments were made to new claimants and 2.9 million weeks of benefits were compensated.

Emergency Unemployment Compensation (EUC) and State Extended Benefits (EB)

Indiana claimants continued to be eligible for up to 73 weeks of EUC and EB programs in 2011. Payments to EUC and EB claimants decreased 42% or $833 million.



UNEMPLOYMENT INSURANCE PREMIUMS AND OTHER EXPENDITURES

UI Premium Rate Schedules

Funding for Unemployment Insurance benefits is provided through unemployment premiums paid by Indiana employers. The premium rating system provides variable premium rates for employers based on their individual unemployment account history. A ratio is calculated for each merit employer based on their experience account balance (premiums paid less benefit charged) and the most recent 36 months of taxable wages reported.

This ratio is then applied to a rate schedule established in statute to arrive at each employer's merit rate for the year. Employers with a credit balance (more premiums collected than benefits paid) receive a lower rate while debit balance employers (more benefits paid than premiums collected) receive a higher rate.

In 2011, rate schedule E was used to determine employer merit rates; and as mandated under HEA 1450, will continue to be used through the year 2020. The applicable rate was paid on the first $9,500 of per employee wages (taxable wage base). The table below compares Indiana's UI rates to neighboring states.

State	Taxable Wage Base	Minimum Rate	Maximum Rate	Minimum Premium Per Employee	Maximum Premium Per Employee
Indiana	$9,500	0.50%	7.40%	$ 47.50	$ 703.00
Illinois	$13,580	0.70%	8.40%	$ 95.06	$ 1,140.72
Kentucky	$9,000	1.00%	10.00%	$ 90.00	$ 900.00
Michigan	$9,500	0.06%	10.30%	$ 5.70	$ 978.50
Ohio	$9,000	0.70%	9.10%	$ 63.00	$ 819.00

Statutory provisions may affect employer premium rates, such as the number of years or months an employer has been subject to Indiana's law, recent reporting activity, and delinquent report/premium status. Other factors, including benefits paid to former employees, voluntary payments, and the complete or partial sale and/or purchase of other businesses by the employer, can also impact each employer's rate.

The following table contains the distribution of Indiana employers by premium rate.

2011 Distribution of Premium Rates

Experience Factor	Current Rate Schedule E	Number of Employers	Percent of All Employer Accounts	Cumulative Number of Employer Accounts	Cumulative Percent of Employer Accounts to All Employer Accounts	Taxable Payroll Previous Year ($000)	Percent of All Taxable Payroll	Cumulative Taxable Payroll of Employers ($000)	Percent of Taxable Payroll of Employers to Taxable Payroll of All Employers	Maximum Annual Tax per Employee
Demographics of Credit Balance Employers										
3.00 & over	0.5%	45,309	36.7%	45,309	36.7%	$2,975,484	17.2%	$2,975,484	17.2%	$47.50
2.80-2.99	0.7%	3,208	2.6%	48,517	39.3%	$780,712	4.5%	$3,756,196	21.7%	$66.50
2.60-2.79	0.9%	3,345	2.7%	51,862	42.0%	$648,814	3.7%	$4,405,010	25.4%	$85.50
2.40-2.59	1.2%	3,502	2.8%	55,364	44.9%	$694,019	4.0%	$5,099,029	29.4%	$114.00
2.20-2.39	1.4%	2,466	2.0%	57,830	46.8%	$654,756	3.8%	$5,753,785	33.2%	$133.00
2.00-2.19	1.6%	1,702	1.4%	59,532	48.2%	$655,827	3.8%	$6,409,613	37.0%	$152.00
1.80-1.99	1.8%	1,469	1.2%	61,001	49.4%	$792,554	4.6%	$7,202,167	41.5%	$171.00
1.60-1.79	2.0%	1,357	1.1%	62,358	50.5%	$604,521	3.5%	$7,806,687	45.0%	$190.00
1.40-1.59	2.3%	1,339	1.1%	63,697	51.6%	$518,499	3.0%	$8,325,186	48.0%	$218.50
1.20-1.39	2.5%	1,216	1.0%	64,913	52.6%	$516,766	3.0%	$8,841,952	51.0%	$237.50
1.00-1.19	2.7%	1,124	0.9%	66,037	53.5%	$399,621	2.3%	$9,241,573	53.3%	$256.50
0.80-0.99	2.9%	1,044	0.8%	67,081	54.3%	$449,850	2.6%	$9,691,423	55.9%	$275.50
0.60-0.79	3.1%	967	0.8%	68,048	55.1%	$383,950	2.2%	$10,075,373	58.1%	$294.50
0.40-0.59	3.4%	921	0.7%	68,969	55.9%	$303,941	1.8%	$10,379,314	59.9%	$323.00
0.20-0.39	3.6%	853	0.7%	69,822	56.6%	$245,683	1.4%	$10,624,997	61.3%	$342.00
0.00-0.19	3.8%	840	0.7%	70,662	57.2%	$238,610	1.4%	$10,863,607	62.7%	$361.00
Total Credit Balance Employers		70,662	57.2%			$10,863,607	62.7%			
Demographics of Debit Balance Employers										
0.00-1.50	4.9%	5,275	4.3%	75,937	61.5%	$1,380,684	8.0%	$12,244,291	70.6%	$465.50
1.51-3.00	5.0%	3,840	3.1%	79,777	64.6%	$870,397	5.0%	$13,114,689	75.6%	$475.00
3.01-4.50	5.3%	2,957	2.4%	82,734	67.0%	$575,804	3.3%	$13,690,493	79.0%	$503.50
4.51-6.00	5.5%	2,329	1.9%	85,063	68.9%	$386,769	2.2%	$14,077,262	81.2%	$522.50
6.01-8.00	5.7%	2,386	1.9%	87,449	70.8%	$317,607	1.8%	$14,394,869	83.0%	$541.50
8.01-10.0	6.0%	1,965	1.6%	89,414	72.4%	$310,670	1.8%	$14,705,538	84.8%	$570.00
10.01-12.00	6.4%	1,570	1.3%	90,984	73.7%	$237,828	1.4%	$14,943,367	86.2%	$608.00
12.01-14.00	6.8%	1,388	1.1%	92,372	74.8%	$159,729	0.9%	$15,103,095	87.1%	$646.00
14.01-16.00	7.1%	1,097	0.9%	93,469	75.7%	$182,618	1.1%	$15,285,713	88.2%	$674.50
16.01 & Over	7.4%	10,781	8.7%	104,250	84.5%	$1,331,989	7.7%	$16,617,702	95.8%	$703.00
Total Debit Balance Employers		33,588	27.2%			$5,754,095	33.2%			
Governmental										
Total Specially Rated Employers	1.6%	11	0.0%	104,261	84.5%	$492	0.0%	$16,618,194	95.8%	$152.00
New Employers										
Total New Employers	2.5%	19,180	15.5%	123,441	100.0%	$721,846	4.2%	$17,340,040	100.0%	$237.50
Total All Subject Employers		123,441	100.0%			$17,340,040	100.0%			

Employer Premium Revenue, Federal Unemployment Tax and Interest Surcharge

Unemployment insurance premium revenue increased 35% from 2010, mostly as a result of the implementation of HEA1450. The taxable wage base increased from $7,000 to $9,500 and new tax schedules were implemented that were designed to require higher premiums from employers that had a higher historical use of the system. Employers with a negative experience balance (more benefits paid out to their former employees than premiums collected) saw the largest increase while half of all employers experienced a decrease in their state UI premiums.

As a result of the outstanding loan, Indiana employers experienced a 0.3% increase in their federal unemployment tax or $21 per employee. This FUTA penalty resulted in $55 million being applied directly to the principal balance of the loan in 2011. In addition to the FUTA penalty, Indiana accrued interest at 4.08% in 2011 and issued a $60.3 million interest payment to the federal government in September. This interest payment was funded by a 13% surcharge on employer premiums generating $77.8 million in revenue. The interest payment for interest accrued October-December 2011 is scheduled to be paid in September 2012.

The following tables compare revenue and expenditures for the trust fund from 2010 to 2011.

Trust Fund Revenue (millions)	**2010**	**2011**	**% Change**
Premiums from Merit Employers	$520.6	$702.7	35%
Payments from Reimbursable Employers	67.1	61.8	-8%
Sub-Total	$587.7	$764.5	30%
FUTA Penalty	0	55	-
Total	$587.7	$819.5	39%

Trust Fund Expenses (millions)	**2010**	**2011**	**% Change**
Benefits Paid - Merit Employers	$986.6	$776.5	-21%
Benefits Paid - Reimbursable Employers	62.8	53.1	-15%
Total	$1,049.4	$829.6	-21%

Interest Surcharge	**2010**	**2011**
Revenue	$0	$77.8
Interest Payment - (Jan 1 - Sept 30)	0	60.3
Year End Balance	$0	$17.5

Unemployment System Statistics

Benefits	2011	National Rank
Benefits Paid (000)	$829,600	
Initial Claims	416,191	16
First Payments	196,561	
Weeks Claimed (000)	3,282	
Weeks Compensated (000)	2,900	
Exhaustions	107,339	
Exhaustion Rate	50.7%	
Average Duration (weeks)	14.8	46
Average Weekly Benefit Amount	$295.09	
AWBA as % of Avg. Weekly Wage	38.8%	
Avg. Benefits per First Payment	$4,191	

Premiums		
State Revenues (000)	$764,522	
Total Wages (000)	$106,394,057	
Taxable Wages (000)	$21,679,712	21
Average Weekly Wage	$760.18	
Avg. Tax Rate on Taxable Wages	3.16%	
Avg. Tax Rate on Total Wages	0.80%	
Taxable Wage Base	$9,500	

Employment		
Insured Unemployment Rate	2.4%	39
Total Unemployment Rate	9.0%	
Total Unemployed (000)	287.2	
Insured Unemployed (000)	142.5	
Recipiency Rate	50.0%	36
Civilian Labor Force (000)	3,188	
Subject Employers (000)	129	

EMPLOYMENT AND TRAINING SERVICES

Employment and Training Services Administrative Fund

The Employment and Training Services Administration Fund is used to pay the administrative costs of Indiana's employment security programs, including the unemployment insurance program.

In addition to State Unemployment Premiums, Indiana employers are subject to Federal Unemployment Taxes (FUTA) and pay an effective tax rate of 0.6% in normal times on a taxable wage base of $7,000.   A portion of the Federal unemployment taxes are redirected back to the states each year as part of the federal budget to fund the administration of the UI system.

Indiana's total UI administration expenditures for the three years are as follows:

For the federal fiscal year ending on September 30, 2009, the state's UI program
Total expenditures were $47,959,125 for the twelve-month period.

For the federal fiscal year ending on September 30, 20010, the state's UI program
Total expenditures were $55,076,970 for the twelve-month period.

For the twelve-month period ending September 30, 2011, the state's budgeted UI program Total expenditures have been set at $58,983,876

These expenditures include additional funding that was provided for the administration of the federal Emergency Unemployment Compensation (EUC) program.

Special Employment and Training Services Fund

In accordance with IC 22-4-25, The Special Employment and Training Services Fund is comprised of interest on delinquent contributions and penalties collected from employers. In Calendar year 2011, the fund received revenues of $6,341,160.

As of December 31, 2011, the available balance of the fund was $5,211,109. Disbursements from the fund totaled $9,584,818. Along with miscellaneous board expenditures and funding for minor programs, $6,200,000 was disbursed In accordance with IC 22-4-25-1(c), and $2,000,000 in accordance with IC 22-4-25-2.5